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**Kenneth Rust**  
Director  
Federal Regulatory Matters

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**NYNEX**

June 11, 1996

**Ex Parte**

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, D.C. 20554

**Re: CC Docket No. 96-45**

Dear Mr. Caton:

Today, V. Callahan, S. Chaney, F. Gumper and I, representing NYNEX, participated on a conference call with E. Benner, S. Loudenslager, and T. Monroe, members of the Federal-State Joint Board staff, regarding Universal Service. The discussion centered on the Benchmark Cost Model. The attached document represents the basis of the conference call.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,



cc: D. Dupont  
J. Morabito  
M. Nadel

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NYNEX  
JUN 11 1996



NYNEX Resolves

# UNIVERSAL SERVICE

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- WHAT IS THE PROBLEM TO BE SOLVED?
  - Very High Cost Areas
  - Telephone Subscribership
  - Education and Health Access

# UNIVERSAL SERVICE PRINCIPLES

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- **CORE SERVICES** - RESIDENTIAL LINE WITH ACCESS TO LOCAL AND LONG DISTANCE, TOUCH -TONE, DIRECTORY LISTING, OPERATOR SERVICES, EMERGENCY SERVICES, AND TRS.
- **REPLACE IMPLICIT SUPPORT MECHANISMS** - DEM WEIGHTING, LONG TERM SUPPORT, EXISTING USF
- **CARRIER COMMON LINE** IS AN ACCESS REFORM ISSUE
- **INTERSTATE RETAIL REVENUE SURCHARGE** - MONIES COLLECTED THROUGH A SINGLE MECHANISM
- **TARGETED HIGH COST ASSISTANCE** - RATE OF RETURN LECS USE ACTUAL STUDY AREA COSTS.
- **PRICE CAP LECS** - USE BCM MODEL

# **NYNEX's Position on the Benchmark Costing Model (BCM)**

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**The BCM should be used to  
target support for Price Cap  
LECs providing core  
universal service to rural,  
insular and high-cost areas.**

# **Advantages of Using the BCM for Targeting Support**

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- Competitively and technologically neutral
- Facilitates portability of high-cost support
- Treats all carriers equal regardless of size, area served and whether incumbent LEC or new entrant.

# **The BCM is not a Valid Ratemaking Tool**

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- It is useful for identifying areas of the country that are relatively more costly to serve
- It should only be used for targeting support to Price Cap LECs providing core universal service to high-cost areas

# **The BCM should not be used as a Ratemaking Tool**

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- Designed to identify high-cost serving areas
- Not a true measure of economic or actual cost
- Underestimates the total cost of providing service
- Does not fully replicate the network architecture and costs of serving dense urban areas

# BCM Limitations

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- Overhead loading factors underestimate actual operational expenses
- Does not include the investment in the drop wire and network interface
- Riser cable is not a component of the network design
- For urban areas with loop lengths of  $< 12,000$  ft, the model uses analog copper feeder. In urban areas, because of space restrictions in cable vaults and conduit, fiber facilities are used in almost all cases.



# PRICE CAP LECs

## BCM FUNDING

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<u>Cost Range</u>	<u>Support</u>
< \$60	\$0
\$60 - \$70	\$10
\$70 - \$80	\$15
\$80 - \$90	\$20
\$90 - \$100	\$25
> \$100	\$30

# PRICE CAP LECS

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Current Funding	\$295M
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BCM Results	\$521M
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# PRICE CAP LECS

## \$ (M)

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	<u>Current</u>	<u>New</u>
AMERITECH	---	\$11
BELL ATLANTIC	\$4	\$8
BELL SOUTH	\$48	\$48
GTE	\$177	\$185
FRONTIER	\$3	\$10
LINCOLN	---	\$5
NYNEX	\$8	\$13
PACTEL	---	\$25
SNET	---	---
SOUTHWESTERN	\$1	\$55
UNITED	\$51	\$46
US WEST	\$3	\$114

# THE NYNEX SINGLE FUNDING MECHANISM FOR UNIVERSAL SERVICE (\$MILLIONS)

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DESCRIPTION	AMOUNT (millions)
1 Lifeline	\$123
2 Linkup America	\$19
3 High-Cost for Rate of Return Carriers	\$401
4 DEM weighting for Rate of Return LECs	\$275
5 High-Cost for price cap carriers based on BCM	\$520
6 Schools	\$1,445
7 Public Libraries	\$83
8 Health Care Providers	NA
9 Total (sum of lines 1 to 8)	\$2,866
10 Base Case Industry Interstate Retail Revenues	\$64,205
11 Adjusted Interstate Retail Revenues (Line 10 - sum (Line 1 through Line 5) Refer to Footnote 1	\$62,867
12 Federal Surcharge ((Line 9 / Line 11)	4.56%

**Footnote 1**

For Price Cap LECs, to the extent that funding for the new USF exceeds the amount for the old USF, that amount will be used by the receiving LEC to reduce its interstate rates.

# **NYNEX EDUCATION PLAN**

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- **VISION FOR EDUCATION DEVELOPED WITH ASSISTANCE OF EDUCATION TELECOMMUNICATIONS COUNCIL**
- **TOTAL NATIONWIDE COSTS ESTIMATED BY COMMISSION - DIFFERENT PER STUDENT BENCHMARK PRICE AND BENCHMARK DISCOUNT FOR RURAL AND URBAN AREAS**
- **SCHOOLS DEVELOP PROPOSAL FOR BRINGING TECHNOLOGY INTO THE CLASSROOM**
- **SCHOOL PROPOSALS CERTIFIED BY STATE AUTHORITY**
- **TELECOMMUNICATIONS CARRIERS BILL SCHOOL FOR DISCOUNTED AMOUNT AND COLLECT REMAINDER FROM FUND ADMINISTRATOR**
- **STATE COULD SUPPLEMENT DISCOUNT FOR ADDITIONAL CREDIT FOR INTRASTATE SERVICES**

